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SPACE

FOREIGN SERVICE DESPATCH

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FROM : AMEMBASSY, GUATEMALA

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TO : THE DEPARTMENT OF STATE, WASHINGTON.

February 27, 1953

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SUBJECT: WEEKA NO. 9 - ECONOMIC SECTION

Citation: Symbol 1AD

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SECTION II

Summary

Congress passed the third and final proposed revenue measure to finance the Government's \$20,000,000 economic development program and rapidly took complementary steps, one of which gave further indication of the program's possible interference with the operations of United States firms. In response to public pressure Sr. Roberto FANJUL, Minister of Economy and Labor, announced that the PERENSA Corporation plan would be completely revised. The highway construction program moved ahead with the opening of the final section of the Guatemala-San José road and an announcement that a new 10-mile stretch of the Pan American Highway would be opened next week. The tourist industry meanwhile alleged that its troubles were due to irresponsible reporting by foreign correspondents and asked Dr. Raúl OSEGUEDA, Minister of Foreign Affairs, to take corrective measures.

Economic Development

In another of its increasingly frequent surprise moves Congress this week suddenly approved the "luxury tax" bill, the third and final proposed revenue measure to finance the Government's \$20,000,000 economic development plan. The bill was reportedly approved in substantially the same form as it had been presented by President ARBENZ in early November and would therefore raise import duties on some 400 items, including a few listed in the United States-Guatemala Trade Agreement. In its rush to enact the bill before the end of the current special session, Congress apparently brushed aside completely clothing manufacturers' protests against increased duties on rayon cloth (WEEKA No.6), which had been delaying final consideration. The press stated that in order to conciliate the conflicting demands

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of the textile and clothing industries Congress might reduce some duties on yard goods during its regular session scheduled to begin March 1, but in view of the Government's need for revenue and its protectionist policy it is possible that it will increase duties on ready-made clothing.

Immediately after approval of the "luxury tax" bill the Executive submitted to Congress a project which would authorize the issuance of \$20,000,000 in bonds, to be amortized in five years with the income from the three new revenue measures. The project would also shorten to four years the original five-year public works program in order to coincide with President Arbenz' term of office. Almost at once the Treasury and Economic Committees of Congress favorably reported out the bill, saying that they had studied it thoroughly and that the proposed public works were of "manifest and evident necessity for the country's social and economic development."

The Government's interest in the development program and its possible effects on the operations of United States companies were further highlighted by a private report that the Ministry of Communications had already contracted with the Eric Floor Associates of Chicago for a six-months study of plans for building a 27,000 kw hydroelectric plant near Palin which would allegedly divert the water supply from two United States-owned Empresa Electrica power stations in that area. It will be recalled that the Government's program also calls for construction of a modern dock at Santo Tomás which would compete with the United States-owned International Railways of Central America facilities at nearby Puerto Barrios.

After three months of wide publicity it seemed more unlikely than ever that the Executive's proposal for a Government-private corporation to exploit the hardwood resources of the Department of El Petén (PETENSA) would be submitted to Congress at an early date as the pressure of continuous criticism from the press and a delegation from the Peten (WEEKAS Nos. 6 and 8) finally forced the Ministry of Economy to announce that the project would be completely revised. Sr. Roberto FANJUL, Minister of Economy, had obstinately defended the plan during a meeting with reporters and the Petén delegation to discuss their objections but a spokesman stated afterward that the Ministry would make further studies to avoid possibly grave consequences for the national economy "in view of the serious and irreparable damage to Guatemala which had resulted from previous contracts with foreign companies."

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Highways

Moving ahead in his highway construction program, President Arbenz on February 21 formally inaugurated the 11.5-mile Palin-Escuintla section which completed a paved road from Guatemala City to the Pacific port of San José and provided easy access to the capital for the rich agricultural areas west of Escuintla. The Government announced that this project, plus a 10-mile stretch of the Pan-American Highway scheduled to be opened next week, brought its total road construction to 241 miles at a cost of \$12,000,000.

Tourism

The ailing Guatemalan tourist industry found itself on common ground with the Government this week when a group of hotel and tourist agency owners and employees claimed that sensational and untruthful stories filed by foreign correspondents were forcing the industry to the brink of ruin. They stated that one unfavorable cable could result in hundreds of cancellations and asked Foreign Minister Raúl Osegueda to take action to correct the situation. The semi-official Nuestro Diario said it was "a shame that the tourist industry is losing so many thousands of dollars merely because of the false reports published in foreign newspapers". The previous week Sr. Augusto CHARNAUD MacDonald had warned foreign correspondents that the Government would use every legal means to check dissemination of "calumnies, insults and falsehoods" (WREKA No. 8).

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